

STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE

45 Fremont Street, 21st Floor
San Francisco, California 94105

RH-05-044493

INITIAL STATEMENT OF REASONS

In a public hearing on April 25, 2005 at 9:30 A.M., the Insurance Commissioner will consider (1) the approval of pure premium rates developed by the designated rating organization; (2) amendments to the California Workers' Compensation Uniform Statistical Reporting Plan-1995, Title 10 CCR §2318.6; (3) amendments to the Miscellaneous Regulations for the Recording and Reporting of Data, Title 10, CCR §2354; and (4) amendments to the California Workers' Compensation Experience Rating Plan-1995, Title 10 CCR §2353.1. The hearing will be held in response to a filing by the Workers' Compensation Insurance Rating Bureau of California ("WCIRB") submitted on March 25, 2005.

Pursuant to Insurance Code Sections 11734 and 11751.5, the Insurance Commissioner has designated the WCIRB as his rating organization and statistical agent. As the designated rating organization and statistical agent, the WCIRB has developed and submitted for Insurance Commissioner approval pure premium rates and revisions to the California Workers' Compensation Uniform Statistical Reporting Plan-1995; the Miscellaneous Regulations for the Recording and Reporting of Data; and the California Workers' Compensation Experience Rating Plan-1995. The pure premium rates will be advisory only; however, adherence to the regulations contained in the California Workers' Compensation Uniform Statistical Reporting Plan-1995, the Miscellaneous Regulations for the Recording and Reporting of Data, and the California Workers' Compensation Experience Rating Plan-1995 is mandatory.

The pure premium rates recommended by the WCIRB to be effective July 1, 2005, as well as proposed revisions to the regulations to be effective July 1, 2005, are set forth in its filing letter and are summarized below:

APPROVE PURE PREMIUM RATES

Pursuant to California Insurance Code Section 11750.3, the WCIRB has proposed advisory pure premium rates for approval by the Insurance Commissioner to be effective July 1, 2005 with respect to new and renewal policies with anniversary rating dates on or after July 1, 2005. The proposed advisory pure premium rates are 10.4% less than the January 1, 2005 advisory pure premium rates approved by the Insurance Commissioner. The proposed pure premium rates do not reflect provision for the new permanent disability rating schedule the Administrative Director of the Division of Workers' Compensation recently adopted pursuant to Senate Bill No. 899, which amends California Labor Code

Section 4660. The WCIRB is in the process of evaluating the impact of this new schedule on the cost of benefits. If appropriate based on that review, the WCIRB will submit amendments to the proposed pure premium and will also propose amendments to the pure premium rates effective July 1, 2005 with respect to new and renewal policies with anniversary rating dates on or after January 1, 2005.

AMEND THE CALIFORNIA WORKERS' COMPENSATION UNIFORM STATISTICAL REPORTING PLAN –1995

The WCIRB recommends amending the California Workers' Compensation Uniform Statistical Reporting Plan–1995. These changes are proposed to become effective July 1, 2005 with respect to new and renewal policies with anniversary rating dates on or after July 1, 2005.

The WCIRB recommends that:

1. Part 2 "Policy Document Filing Requirements," Section I "General Instructions," Rule 1 "Policies" be amended to provide that a policy providing coverage for the workers leased by a labor contractor to a client and written in the labor contractor's name can include the phrase "Leased Coverage For" or the acronym "LCF" followed by the client's name in Item 1 of the policy.

AMEND THE MISCELLANEOUS REGULATIONS FOR THE RECORDING AND REPORTING OF DATA

The WCIRB recommends that the following amendments to the Miscellaneous Regulations for the Recording and Reporting of Data be approved effective July 1, 2005 with respect to new and renewal policies with anniversary rating dates on or after July 1, 2005.

The WCIRB recommends that:

1. Part 2, Workers' Compensation Forms and Coverage," Section III "Additional Interests," be amended to permit a policy issued in the name of the client of a Labor Contractor to cover both the client's employees and its leased workers on the same policy.

AMEND THE CALIFORNIA WORKERS' COMPENSATION EXPERIENCE RATING PLAN–1995

The WCIRB recommends that the following amendments to the California Workers' Compensation Experience Rating Plan–1995 be approved effective July 1, 2005 with respect to new and renewal policies with anniversary rating dates on or after July 1, 2005.

The WCIRB recommends that:

1. Section III, “Eligibility and Experience Period,” Rule 1, “Eligibility Requirements for California Workers’ Compensation Insurance,” be amended to adjust the eligibility requirement from \$28,400 to \$25,446 to reflect the changes in pure premium rates proposed in this filing.
2. Section V, “Application of Experience Modification,” Rule 4 “Application of Experience Modification to Policies Covering Employee Leasing Arrangements,” be amended to: (a) require that a separate policy be issued for each client that leases any of its workers, except for temporary workers, through a labor contractor, whether the client is experience rated or not; (b) require that the experience modification of the client, if any, apply to the separate policy; (c) require that the experience reported for the separate policy be used to calculate an experience modification for the client if the client is eligible or becomes eligible for experience rating; (d) require a limiting and restricting endorsement on certain policies; (e) permit either the client or the labor contractor, but not both, to be the named insured on the separate policy; and (f) permit the insurer to cover both the workers leased to the client and the client’s employees on a single policy, provided the client is the named insured on the policy.